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C O N F I D E N T I A L SECTION 01 OF 02 MINSK 000893

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TAGS: [ECON](#) [ENRG](#) [EFIN](#) [PINR](#) [BO](#)

SUBJECT: NEAR-TERM ECONOMIC COLLAPSE UNLIKELY - ANALYSTS

REF: A. Minsk 003

[B](#). Minsk 846

[C](#). Minsk 886

Classified By: Ambassador Karen Stewart for reason 1.4 (d).

Summary

[1](#). (C) Belarusian economic experts do not foresee the imminent collapse of the Belarusian economy, in spite of price hikes for imported Russian natural gas. During an October 18 meeting with the Ambassador, economic analysts predicted that the Belarusian economy could sustain expected gas price increases of 20 to 30 per cent. They noted friction, however, between Aleksandr Lukashenko and the upper echelon in his regime, who were eager for economic liberalization that would see their status turned into cash and shares. End summary.

Analysts Agree Near Term Crash Unlikely...

[2](#). (C) During a breakfast meeting on economic issues October 18 hosted by the Ambassador, a group of local economists agreed emphatically that there was little chance of a collapse in the Belarusian economy in the next one to three years, in spite of Russian gas price increases (refs A, C). Georgiy Badey, Chairman of the independent Union of Entrepreneurs and Employers, said that the GOB's earlier decision to raise gas prices in 2006 had helped to minimize perceptions among consumers of the effects from Russia's 2007 increase. Badey added that data showed the weight of the price increase was being borne by state-owned firms; he said that while GDP had grown over 8 per cent in 2007, firms' accounts had grown only a fraction of one per cent.

... In Spite of Second Round of Gas Price Hikes

[3](#). (C) Leonid Zaiko, Deputy Director of the independent Mises think tank, agreed that Russian gas price hikes expected in January 2008 were unlikely to shake the Lukashenko regime. Zaiko said that gas prices from 120 to 145 USD per 1000 cubic meters of gas -- a 25 to 45 per cent increase on 2007 rates -- would not cause a crisis for the state, though it would cause problems for some firms. Marina Bakanova, Country Economist for the World Bank, said that the GOB had been prepared for a January 2008 price as high as 170 USD per 1000 cubic meters, but current expectations were that the 2008 price would be around 130 USD, unlikely to lead to a crisis. Bakanova noted that Belarus seems to be paying for the gas it receives, since its arrears have not increased.

¶4. (C) One reason gas price hikes would not lead to an economic collapse in the near term, according to the analysts present, was the regime's access to cash via privatization. While most saw this as a last resort, Zaiko noted that in the recent past one would never hear words like "privatize," "issue shares," or "auction" but today some elites were pushing for steps like these so that Belarusian firms could be integrated into Russian firms. Zaiko said that adult children of Belarusian elites were pushing for privatization and share offers to insure that their parents could cash in on their positions. Andrey Vardomatsky, independent pollster and head of the Novak Research Laboratory, claimed that this phenomenon represented a split between Lukashenko and his elite.

Analysts Split on Devaluation of the Ruble

¶5. (C) The analysts present agreed that the Belarusian ruble was overvalued, and that previous GOB policy to peg the currency to the Russian ruble had been a mistake. According to Bakanova, the GOB was likely to attempt to let the ruble's value slip steadily, to avoid a swift devaluation. Zaiko added that Belarusians already calculate their monthly salary in USD equivalent; if salaries slip from 300 USD per month to 250 USD due to devaluation, he felt Aleksandr Lukashenko's poll numbers would fall significantly as a result (ref B).

Comment

MINSK 00000893 002 OF 002

¶6. (C) While these analysts agreed that the Belarusian economy could sustain the modest gas price increases expected in January 2008, the cumulative effect of these price hikes has been a narrowing of options for the regime. Sooner rather than later, it is clear that Lukashenko will be forced into steps that he has avoided in the past, like strategic privatizations, or that carry significant political risk, like devaluation.

Stewart